

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Joint Resolution 6

Assembly Member Canciamilla (As introduced 3/5/01)

Position:

Support

Proponents:

SACRS (Sponsor)

Opponents:

None known

SUMMARY

Assembly Joint Resolution 6 memorializes the President and Congress to enact legislation similar to last year's H.R. 1102, the Retirement Security and Savings Act of 2000, which would have raised contribution limits and expand pension portability among various types of governmental plans, including defined benefit, defined contribution, Section 403(b) plans, Section 457 plans, and Individual Retirement Accounts (IRAs).

HISTORY

Public Law (P.L.) 93-406, the Employee Retirement Income Security Act of 1974, among other provisions, added Section 415 to the Internal Revenue Code (IRC) to place annual dollar limits on the contributions made to, and benefits provided by, public and private pension plans.

P.L. 104-188, the Small Business Job Protection Act of 1996, among other provisions, permitted public pension systems to develop a program to pay benefits in compliance with IRC Section 415 requirements.

H.R. 1102 (Portman, Cardin), the Retirement Security and Savings Act of 2000, would have raised contribution limits and expanded pension portability among various types of pension and retirement plans. Although H.R. 1102 enjoyed strong bipartisan support in Congress and was part of last year's final House-Senate tax relief package, it and most of the tax package was dropped by the conference committee in order to end the budget stalemate during the final days of the 106th Congress.

H.R. 10 (Portman, Cardin), from the current Congress, reintroduces the provisions of H.R. 1102.

CURRENT PRACTICE

The California State Teachers' Retirement System (CalSTRS) provides benefits to members through the State Teachers' Retirement Plan (Plan), which includes (1) the Defined Benefit Program and (2) Defined Benefit Supplement Program for full-time and part-time credentialed employees, and (3) the Cash Balance Benefit Program for credentialed employees who are hired

to work less than half-time. Federal law limits the compensation that is included in calculating benefits, and subject to contribution to CalSTRS, to \$170,000 in 2001. It also limits to \$140,000 in 2001 the amount that CalSTRS can pay in annual benefits under the Plan for members retiring between age 62 and 65. Any benefits that are due under the Plan in excess of that latter limit are paid by CalSTRS in a separate Replacement Benefits Program. In addition, CalSTRS administers the Voluntary Investment Program, a 403(b) program that permits school employees to contribute additional funds on a tax-sheltered basis, and invest the contributions in mutual funds. CalSTRS' benefits are authorized in the Teachers' Retirement Law (TRL), and comply with sections of the IRC governing government pension and retirement plans in order to maintain its tax-qualified status.

DISCUSSION

H.R. 10, sponsored by Representatives Rob Portman (R-Ohio) and Ben Cardin (D-Md.), raises contribution limits for IRAs and other tax-deferred savings programs and for defined benefit plans such as the Plan, expands pension portability among defined benefit, defined contribution, Section 403(b) plans, Section 457 plans and IRAs, and modifies various other provisions of federal pension tax law. H.R. 10 is the reintroduced version of H.R. 1102, the Portman-Cardin pension reform package that failed last year.

Among the changes that H.R. 10 would make that would affect the benefits provided by CalSTRS programs are:

- An increase from \$140,000 to \$160,000 in the amount of benefit that CalSTRS may pay annually from the Plan;
- An increase from \$170,000 to \$200,000 in the amount of creditable compensation that is annually included in the calculation of benefits, and subject to contribution to CalSTRS;
- Authority for members to transfer 403(b) funds to CalSTRS to pay the cost of permissive service credit;
- Simplification in the calculation of the maximum contribution to 403(b) plans;
- Authority for members to make 403(b) contributions on an after-tax basis, with earnings distributed in retirement on a tax-free basis, similar to Roth IRAs and
- A gradual increase in the amount that may be contributed annually to a 403(b) plan from \$10,500 to \$15,000 by 2005, with future increases tied to inflation.

While the Bush Administration's tax proposal recently introduced in Congress did not include any changes to the pension tax laws, the provisions contained in H.R. 10 appear to have strong bipartisan support, including support from the House Republican leadership. CalSTRS' Washington counsel believes that the prospect for adoption of the Portman-Cardin legislation

will depend on the willingness of Congress to move beyond the Bush tax outline, but will probably be included in some tax legislation enacted by Congress this year.

Because CalSTRS members do not participate in Social Security, members rely upon the benefits provided by CalSTRS and other tax-deferred and tax-qualified retirement options authorized under the IRC to ensure their financial security during retirement. H.R. 10 will allow members to enhance and supplement their CalSTRS retirement allowances.

FISCAL IMPACT

Passage of this resolution would, in and of itself, have no direct fiscal impact on CalSTRS benefit programs or administrative operations. If the President and Congress enacts H.R. 10, it will be necessary for CalSTRS to introduce legislation to make conforming changes to the TRL that take advantage of the new federal pension tax laws.

BOARD POSITION

Support. This resolution is consistent with the Teachers' Retirement Board's previous actions to enhance the retirement security of CalSTRS members.